

EAST BATON ROUGE MORTGAGE
FINANCE AUTHORITY

DECEMBER 31, 2012

BATON ROUGE, LOUISIANA

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

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June 18, 2013

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
East Baton Rouge Mortgage Finance Authority

Report on the Financial Statements

We have audited the accompanying individual programs, unrestricted fund, and 2012 combined financial statements of the East Baton Rouge Mortgage Finance Authority (the Authority) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the East Baton Rouge Mortgage Finance Authority as of December 31, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the East Baton Rouge Mortgage Finance Authority's December 31, 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 25, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived

Other-Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 13 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued a report dated June 18, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the East Baton Rouge Mortgage Finance Authority's internal control over financial reporting and compliance.

Respectfully submitted,

Hannis J. Bourgeois, CPA

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

The Management's Discussion and Analysis ("MD&A") of the East Baton Rouge Mortgage Finance Authority's (the "Authority") financial performance presents a narrative overview and analysis of the Authority's financial activities for the year ended December 31, 2012 as well as commentary of general market trends, market conditions and the Authority's mortgage loan origination and mortgage loan payoff history since 2002. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this MD&A in conjunction with the Authority's audited financial statements presented beginning on page 14.

The Authority's basic financial statements include the totals of the similar accounts of each of the Authority's various bond programs and the Unrestricted Fund. Since the assets of each individual bond series are restricted by the respective bond resolution and trust indenture which authorized each bond series, the totaling of the accounts, including the assets therein, is for convenience purposes only and does not indicate that the combined assets are available in any manner other than is provided for in the respective resolutions and indentures relating to each separate bond series. However, for the purpose of this analysis, we will refer to the combined totals in order to assist the reader in understanding the overall financial condition of the Authority.

GENERAL ECONOMIC TRENDS, INTEREST RATE MARKET CONDITIONS, OVERVIEW OF FINANCIAL STATEMENTS, A FINANCIAL ANALYSIS OF THE AUTHORITY, CURRENT ECONOMIC FACTORS, THE AUTHORITY'S 2013 BUDGET AND THE AUTHORITY'S 2009 and 2010 ("GSE") MORTGAGE LENDING PROGRAMS

- Conventional mortgage loan interest rates have remained stable for the last several years. From January 1, 2003 through December 31, 2012 interest rates on the Authority's eight (8) mortgage lending programs originated during this time period ranged from a low of 3.75% to a high of 6.375% - a range of 2.625%. Conventional mortgage interest rates since the beginning of 2010 have gradually fallen to 4.00% or lower as of June 1, 2013.
- From June 2006 until September 2007 (a 15 month time period) the Federal Reserve Bank (the "Fed") kept its federal funds target rate constant at 5.25%. Beginning in mid-September 2007 the Fed, in response to the turmoil in the "residential sub-prime" mortgage market, began to reduce the fed funds target rate with a cut in its Fed funds target rate from 5.00% to 4.75% followed with two (2) more cuts at its subsequent meetings in 2007 and eight (8) more cuts in 2008 to a level of only 0.00% - 0.25%, (an all time historical low) on December 16, 2008, which historical low rate has continued for approximately the last 54 months, an unprecedented length of time without a change to the Fed Funds target rate. The Fed funds rate remains at a target of 0.00% to 0.25% as of June 1, 2013.
- The financial markets faced crisis after crisis beginning in early March, 2008 when the fifth (5th) largest investment banking firm of Bear Stearns & Co. was bailed out from insolvency and almost certain bankruptcy through a Fed assisted buyout by JP Morgan Chase & Co.

- Financial markets continued to deteriorate in 2008 and reached a crisis point the first two (2) weeks of September 2008 with the takeover by the federal government of both the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corp ("Freddie Mac") by placing both government sponsored enterprises ("GSE's") into conservatorship on September 7, 2008. Both Fannie Mae and Freddie Mac currently remain in conservatorship by the federal government. One week later Lehman Brothers & Co, the world's fourth (4th) largest investment banking firm filed for bankruptcy protection the morning of Monday, September 15, 2008 followed by a Fed led bailout of American International Group ("AIG"), the world's largest insurance company
- The last quarter of 2008 saw unprecedented declines in the equity markets not experienced since the Great Depression. During this time the Fed pumped billions of dollars in the US banking system in order to provide sufficient liquidity to the financial markets
- During 2008 what originally started in mid-2007 as a subprime residential mortgage loan crisis turned into a panic as most all mortgage related assets not guaranteed by the GSE's suffered massive mark to market losses. At the same time the credit markets locked up and more or less stopped functioning.
- A severe banking crisis then ensued. Investment and commercial banks, domestically as well as internationally, suffered very significant unrealized losses during a period where the bid side of the credit markets for all practical purposes disappeared. As a result of mark to market accounting rules, many commercial and investment banks teetered on the verge of insolvency from both substantial realized losses as well as unrealized losses in quarter after quarter earnings reports caused by the required write-off of unrealized losses consistent with generally accepted accounting principles
- The Fed in October 2008 made substantial purchases of preferred stock of approximately \$250 billion issued by the nine (9) largest national banks as well as many regional banks in an effort to strengthen the capital position of the entire US commercial banking system
- The Authority sold a \$20 million bond issue in late December 2007. The Authority utilized a portion of these bond proceeds to originate approximately \$10 million in mortgage loans during the first six (6) months of 2008. The Authority redeemed approximately \$10 million in bonds in June 2008 as a result of a federal tax requirement.
- The Authority did not issue any bonds in 2008. The Authority did issue bonds in October 2009 to fund a \$20 million mortgage lending program. Approximately \$10 million of the funds made available were used to originate mortgage loans during 2010. The mortgage interest rate of 5.375% offered on this mortgage lending program became non-competitive in 2010 as conventional mortgage interest rates continued to fall. As a result approximately \$9.68 million of these funds were redeemed in February 2011.
- The Authority sold \$25 million in bonds on January 12, 2010 with the Government Sponsored Entities (the "GSE's") which bonds were privately placed with the GSE's (pursuant to special congressional legislation authorizing the GSE's to purchase bonds from local and state housing finance agencies such as the Authority). Initially the GSE Bonds were issued at variable short term interest rates convertible at the option of the Authority. The Authority converted the GSE bonds to a fixed interest rate and locked in a fixed interest rate of 2.32% on September 22, 2011.
- The Authority is currently funding a mortgage lending program with a combination of its own funds and the GSE bond proceeds

- The mortgage loan rate currently being offered by the Authority is 3.75% with 4.00% of the mortgage loan amount available to first-time homebuyers for down payment and closing cost assistance. This assistance is in the form of a soft second mortgage forgivable over a five (5) year period which second mortgage loan has no monthly principal or interest payments required.

FINANCIAL HIGHLIGHTS

2012 Mortgage Loan Principal Paydowns

- Federal tax law prohibits the Authority from providing mortgage loan refinancings. During 2011 relatively low mortgage loan interest rates continued to decline, which contributed to an amount of \$19.149 million in mortgage loan principal paydowns. Even moderate decreases in conventional mortgage loan interest rates often result in refinancings of the Authority's mortgage related assets.
- There was a slowdown in the aggregate amount of mortgage loan principal paydown for the five (5) year period of 2006 - 10 as compared with the prior four (4) year period of 2002 - 05. Due to a continued decline in conventional mortgage rates, mortgage paydowns in 2009 - 10 showed increases over 2007 - 08. However there was a decline in 2011 to the amount of approximately \$19.149 million as compared with 2006 - 08. (See chart below)

<u>Year Ended December 31</u>	<u>Total Mortgage Payoffs^{*2} (million)</u>	<u>New Mortgage Loan Originations (million)</u>	<u>Net Mortgage Related Assets Increase or Decrease (million)</u>
2002	\$ 57.784	\$ 18.878	\$ (38.906)
2003	74.230	12.463	(61.767)
2004	53.985	22.636	(31.349)
2005	40.069	26.826	(13.243)
2006	25.679	38.946	13.267
2007	24.097	45.749	21.652
2008	21.565	15.192	(6.373)
2009	26.783	3.368	(23.415)
2010	28.716	11.140	(17.576)
2011	19.149	19.301	0.152
2012	20.340	23.270	2.930
Totals	<u>\$ 392.397</u>	<u>\$ 237.769</u>	<u>\$ (154.628)</u>

^{*2} Prepayments of mortgage loans whether from whole mortgage loans or from GNMA, FNMA or FHLMC mortgage backed securities ("MBS") (which MBS serve as collateral for the Authority's bonds) are required to be used to retire the same approximate amount of Authority's bonds prior to their respective stated maturities. This number reflects loans paid in full prior to maturity and regular monthly principal paydowns.

2012 New Mortgage Loan Originations

- The Authority originated \$23.27 million of new mortgage loans during 2012 as compared with \$19.301 million in 2011 and \$11.140 million during 2010. The level of mortgage loan origination activity in 2012 resulted in a net increase of the Authority's net mortgage related assets by \$2.93 million (before the effect of any unrealized gains) as compared with a \$152,000 net increase in 2011 (See above chart for the history of new mortgage loan originations for the last eleven (11) year period.)

2012 Adjusted Net Position

- The Authority's assets exceeded its liabilities at the close of 2012 by \$49.120 million, which represents a \$3.271 million decrease from the 2011 amount of \$52.391 million (The Authority had a net cumulative increase of \$7.631 million (Unrealized Gain) in fair market value of a portion of its assets plus a Realized Gain of \$1.845 million for the year ended December 31, 2012.
- Without giving effect to the adjustment for unrealized gains in the fair value of investments on a cumulative net basis, the Authority's assets exceeded its liabilities by \$41.489 million in 2012 which represents a decrease of \$306,000 from the 2011 adjusted amount of \$41.795 million.

2012 Adjusted Operating Revenues

- The Authority's adjusted revenues of \$7.091 million in 2012 (exclusive of the \$1.119 million decrease in the fair value of investments for the year ended December 31, 2012) decreased by \$870,000 as compared to adjusted revenues of \$7.961 million generated in 2011 (exclusive of the net increase in the fair value of investments of \$3.386 million which represented an unrealized gain in 2011) due to the following factors:
- The Authority generated income earned on mortgage loans receivable/mortgage backed securities of \$5.994 million in 2012 as compared with \$6.648 million in 2011 - a decrease of \$654,000.
- The Authority realized a \$196,000 decrease in income earned on other investments from \$1.036 million in 2011 to \$840,000 in 2012
- The Authority's Fee Income in 2012 decreased by \$43,000 in 2012 to \$234,000 from \$277,000 in 2011

2012 Operating Expenses

- The Authority's 2012 Total Operating Expenses of \$9.243 million decreased by \$2.405 million from 2011 operating expenses of \$11.648 million.
- Interest Expense declined by \$583,000 from \$5.804 million in 2011 to \$5.221 million in 2012
- There was a decrease in the amortization of deferred financing costs of \$236,000 in 2012 as compared with 2011.
- There was an increase in the amortization of DAP/MLAP of \$150,000 in 2012 as compared to 2011.

- There was a decrease of \$1.741 million in Operating Expenses in 2012 as compared to 2011, almost entirely attributable to a decrease in the amount of grants awarded by the Authority of approximately \$1.684 million from \$3 226 million in 2011 to \$1.542 million in 2012.

2012 Adjusted Net Operating Income

- The Authority experienced a smaller net loss of \$2 152 million in 2012 compared with a \$3.687 million net loss in 2011 (excluding the effects of the realized and unrealized gains or losses in the fair value of investments for 2012 and 2011) before adjusting for the non-cash expense item categories of (a) the amortization of deferred financing costs and (b) the amortization of down-payment assistance program and the Authority assistance program costs
- The Authority's net operating loss (after adjusting for the non-cash expense items of (a) and (b) above and further adjusted for unrealized gains on the fair value of investments) was \$1.069 million in 2012 as compared with a net operating loss of \$2.518 million in 2011 – a decrease of \$1.449 million in the net operating loss in 2012 as compared with 2011

2012 Unrestricted Fund Net Position

- As of December 31, 2012, the Authority had unrestricted net position of \$28.733 million as compared with unrestricted net position of \$28.993 million as of December 31, 2011 representing a decrease of \$260,000. Excluding the effect of cumulative unrealized gains (or losses) for both periods the Authority had unrestricted net position of \$27.321 million as of December 31, 2012 as compared with \$27.176 million as of December 31, 2011, representing a decrease in unrestricted net fund balance of \$145,000 in 2012 over the same period of 2011

Authority's Bond Credit Ratings

- The Authority has a "Aaa" rating from Moody's Investor Service on substantially all of its separately secured series of bonds with the exception of the 2009 GSE Bonds which are rated Aaa by Standard & Poor's Corporation
- In addition in May 2002, the Authority applied for an issuer rating from Moody's Investor Services ("Moody's"). Moody's awarded the Authority an 'A3' issuer general obligation rating which is the current rating. The Authority issued a series of subordinate bonds in the principal amount of \$2 million as a part of the Series 2009A Bonds on October 27, 2009 secured by the Authority's general obligation pledge of the Authority's unrestricted assets
- Moody's affirmed the Authority's 'A3' issuer general obligation rating on October, 2012 (which "A3" rating remains the current credit rating) as previously mentioned Moody's included as a part of its rating report certain operating and debt ratios in its rating report. These same operating ratios and debt ratios as defined in the footnotes below, are calculated based upon the financial results (as adjusted) for the years ended December 31, 2010, 2011 and 2012, are presented below.

Authority's Operating and Debt Ratios (million)

	<u>12/31/10</u>	<u>12/31/11</u>	<u>12/31/12</u>
Moody's Rating	A3	A3	A3
Profitability *1	(1.52%)	(31.63%)	(15.08%)
Adjusted General Fund/Unrestricted Net Position Balance *2	\$29,507	\$24,934	\$25,498
Outstanding Long Term Bonds and Lines of Credit (including accrued interest)	\$172,633	\$146,619	\$123,685
General Fund/Unrestricted Net Position Balance (as a % of Outstanding Short and Long Term Bonds including accrued interest) *2	17.09%	17.01%	20.62%
Combined Net Position (Unrestricted and Restricted) Balance *2	\$37,598	\$33,452	\$33,472
Outstanding Long Term Bonds and Lines of Credit (including accrued interest)	\$172,633	\$146,619	\$123,685
Combined Net Position Balance (unrestricted and restricted) (as a % of Outstanding Bonds including accrued interest) *2	21.78%	22.82%	27.06%

(*1 defined as Adjusted Net Income as a % of Adjusted Operating Revenues (both adjusted for all non-cash items, such as unrealized gains/ (losses) on investments, current year amortization of deferred financing costs and amortization of down-payment and Authority assistance program costs.)

(*2 as adjusted for all non-cash asset categories, such as unrealized cumulative gains/ (losses) on investments, remaining unamortized amount of deferred financing costs and down-payment and Authority assistance program costs.)

OVERVIEW OF THE FINANCIAL STATEMENTS

These basic financial statements consist of three sections - Management's Discussion and Analysis (this section), the basic financial statements (including the notes to the financial statements) and the supplemental information

Basic Financial Statements

The basic financial statements include information on a combined basis for the Authority as a whole, in a format designed to make the statements easier for the reader to understand. The statements include the balance sheets, the statements of revenues, expenses, and changes in net position; and the statements of cash flows. The balance sheets (pages 14 & 15) present the assets and liabilities separately. The difference between total

assets and total liabilities is net position and may provide a useful indicator of whether the financial position of the Authority is improving or deteriorating on an adjusted basis

The statements of revenues, expenses, and changes in net position (pages 16 & 17) present information showing how the Authority's net position changed as a result of the current year's operations. Regardless of when cash is affected, all changes in net position are reported when the underlying transactions occur. As a result, there are transactions included that will not affect cash until future fiscal periods.

The statements of cash flows (pages 18 - 21) present information showing how the Authority's cash changed as a result of the current year's operations. The combining cash flow statements are prepared using the direct method and include the reconciliation of net income (loss) to net cash provided by (used in) operating activities (indirect method) as required by Statement 34 of the Governmental Accounting Standards Board

COMBINED STATEMENT OF NET ASSETS
AS OF DECEMBER 31, 2012 AND 2011
(In thousands)

	<u>2012</u>	<u>2011</u>	<u>Change from Prior Year</u>
Mortgage backed securities & mortgage loan receivable	\$ 112,729	\$ 140,584	\$ (27,855)
Guaranteed investment contracts and investments			
including cash & cash equivalents	40,192	35,885	4,307
U.S. Government and Agency Securities	14,480	17,499	(3,019)
Other non-cash assets	<u>5,404</u>	<u>5,042</u>	<u>362</u>
Total Assets	<u>\$ 172,805</u>	<u>\$ 199,010</u>	<u>\$ (26,205)</u>
Other liabilities	\$ 1,186	\$ 1,403	\$ (217)
Short-term debt outstanding (including Lines of Credit)	9,380	13,849	(4,469)
Long-term debt outstanding	<u>113,119</u>	<u>131,367</u>	<u>(18,248)</u>
Total Liabilities	<u>\$ 123,685</u>	<u>\$ 146,619</u>	<u>\$ (22,934)</u>
Net Position:			
Investment in Capital Assets, Net of Related Debt	1,549	789	760
Restricted *1	18,838	22,609	(3,771)
Unrestricted *2	<u>28,733</u>	<u>28,993</u>	<u>(260)</u>
Total Net Position	<u>\$ 49,120</u>	<u>\$ 52,391</u>	<u>\$ (3,271)</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 172,805</u>	<u>\$ 199,010</u>	<u>\$ (26,205)</u>

*1 'Restricted net assets' represent those net assets that are restricted and as a result are not available for general use due to the terms of the various bond trust indentures under which certain specified assets are held and pledged as security for the individual bonds of the Authority constituting its mortgage lending programs

*2 'Unrestricted net assets' are those assets for which there is not a specific limitation pledge of any of the unrestricted net assets to a specific bond issue of the Authority.

FINANCIAL ANALYSIS OF THE AUTHORITY

2012 Adjusted Revenues and Expenses

After adjusting revenues and expenses for realized and unrealized gains or (losses) in the fair value of investments and for non-cash expense items, the decreases in both total revenues and total expenses of all programs and services for 2012 as compared to 2011 were primarily a result of the following factors:

- A decrease in income earned on mortgage loans receivable and/or MBS of \$654,000;
- A decrease in income earned on other investments of \$196,000 from 2011 to 2012;
- A decrease in bond interest expense of \$583,000.

2012 NET INCOME/LOSS

	<u>2012 (millions)</u>	<u>2011 (millions)</u>	<u>Change from Prior Year (millions)</u>
Revenues	\$ 5.972	\$ 11.347	\$ (5.375)
Expenses	<u>9 243</u>	<u>11.648</u>	<u>(2.405)</u>
Net income/loss	<u>\$ (3.271)</u>	<u>\$ (0.301)</u>	<u>\$ (2.970)</u>

2012 Adjusted Revenues

- The Authority's total revenues (exclusive of the net decrease of \$1.119 million in 2012 in the fair value of investments) decreased from \$7.961 million in 2011 (exclusive of the net increase in the fair value of investments of \$3 386 million which represented an unrealized gain) to \$7.091 million in 2012 – a decrease of \$870,000
- Revenues from income earned on mortgage loans receivable/MBS decreased by \$654,000 from \$6.648 million in 2011 to \$5 994 million in 2012
- Authority Fee Income decreased \$43,000 from \$277,000 in 2011 to \$234,000 in 2012
- Revenues from income earned on other investments decreased \$196,000 from \$1 036 million in 2011 to \$840,000 in 2012.

2012 Adjusted Expenses

- Bond interest expense decreased by \$583,000 from \$5 804 million in 2011 to \$5.221 million in 2012.
- The total expenses of all programs and services (net of bond interest expense) for 2012 of \$4 022 million represented a decrease of \$1 822 million from the comparable amount of \$5.844 million in 2011 primarily due to a \$1.741 million decrease in operating expenses

- Certain other expense items for 2012 and 2011 represent the amortization of the non-cash items such as amortization of deferred financing costs and amortization of DAP and MLAP costs, which totaled \$1.083 million for 2012 and \$1 169 million for 2011 respectively - a decrease of \$86,000 in 2012 from 2011

Authority Debt

- The Authority had \$113 119 million in mortgage revenue bonds and a \$9.380 million line of credit with the Federal Home Loan Bank of Dallas outstanding (excluding accrued interest) on December 31, 2012 as compared to \$131 367 million in mortgage revenue bonds and \$13 849 million line of credit with the Federal Home Loan Bank of Dallas outstanding as of December 31, 2011, as shown in the table below.

OUTSTANDING AUTHORITY DEBT AS OF DECEMBER 31, 2012 AND 2011

	2012 (millions)	2011 (millions)	Change from Prior Year (millions)
Mortgage Revenue Bonds	\$ 113.119	\$ 131 367	\$ (18.248)
Line of Credit (FHLB of Dallas)	<u>9 380</u>	<u>13 849</u>	<u>(4 469)</u>
Outstanding Debt (as of December 31)	<u>\$ 122.499</u>	<u>\$ 145 216</u>	<u>\$ (22.717)</u>

- Mortgage Revenue Bonded Debt outstanding decreased by \$18.248 million as of December 31, 2012 as compared with December 31, 2011
- The Authority had an outstanding line of credit as of December 31, 2011 of \$13.849 million with the Federal Home Loan Bank of Dallas as compared with a line of credit of \$9.380 million on December 31, 2012 a decrease of \$4 469 million

Accounts Payable and Accrued Interest Payable

The Authority had accounts payable, accrued liabilities and accrued interest payable of \$1.403 million outstanding on December 31, 2011 compared with \$1 186 million for 2012 a decrease of \$217,000

SUMMARY OF RECENT MORTGAGE LENDING PROGRAMS FROM 2007-2013

On both the Authority's 2007A and 2007B bonds, the bond proceeds were invested at rates in excess of the interest rates the Authority was paying on its bonds. However the Series 2009A bond proceeds were invested at rates significantly lower than the average interest rate on the Series 2009A Bonds thereby creating a 'negative' cost of carry on the Series 2009 A Bonds.

The GSE Bond proceeds are currently invested at rates significantly lower than the GSE Bonds interest rate of 2.32% thereby also creating a 'negative' cost of carry on the GSE bond proceeds

As a result of this additional cost, the Authority (as it did on its 2002 mortgage lending program) utilized a line of credit at the Federal Home Loan Bank of Dallas ("FHLB") on its mortgage lending programs to finance the acquisition of the mortgage backed securities ("MBS") originated under the 2009A and GSE Bonds mortgage lending programs

The Series 2009A bond proceeds were invested to a single future maturity date which resulted in a higher earnings rate than what was estimated to have been earned by the Authority with various multiple 'flexible' investment dates

The Authority is currently borrowing funds (pursuant to its line of credit with the FHLB at very low short term interest rates) to fund its acquisition of MBS which allows the Authority to realize a 'net' interest rate spread between its borrowing rate and the average pass thru rate on the mortgage backed securities originated by the 2009A mortgage lending program

This 'net' interest rate spread was greater than the 'negative' spread between the average interest rate on the Series 2009A bonds and the rate of earnings on the Series 2009A bond proceeds.

The Authority is currently borrowing funds from the FHLB to finance its acquisition of MBS on the GSE mortgage lending program and also is currently earning a 'net' spread greater than the 'negative' cost of carry on the GSE bond proceeds

At the present time the Authority has approximately \$18.10 million in total advances (i.e., line of credit) at the FHLB of Dallas.

In addition, the Authority currently intends to sell all or a portion of the MBS it currently holds at the FHLB as well as all or a portion of any future MBS it acquires under the GSE mortgage lending program.

The Authority sold approximately \$28.50 million in MBS's on August 15, 2012 at a profit of approximately \$1.875 million.

It is anticipated that the proceeds realized by the Authority from the sale of any MBS will be 'recycled' for additional MBS purchases in connection with the GSE mortgage lending program.

In the past the Authority has successfully structured its mortgage lending programs by utilizing the strong financial position of its Unrestricted Fund. The Authority anticipates continuing to utilize its Unrestricted Fund to further its mission of providing affordable housing.

CURRENT ECONOMIC FACTORS AND THE AUTHORITY'S 2012 BUDGET

The Authority's Board of Trustees considered the following factors and indicators when the Authority adopted its 2013 Operating Budget. These factors and indicators include

- The potential for the continuation of relatively low conventional mortgage loan interest rates continuing into 2013 for the tenth (10th) consecutive year continuing to stimulate early mortgage loans payoffs (as a result of mortgage loan refinancings) could again result in a net decrease in the Authority's mortgage related assets while also reducing the Authority's fee income earned on mortgage related assets
- The Authority currently expects to add at least \$25 million in mortgage related assets in 2013 which the Authority expects will be an amount greater than the amount of mortgage loan payoffs.

CONTACTING THE EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

This Financial Report including the MD&A (which MD&A has been prepared by Financial Consulting Services, Inc. at the direction of the Authority as its Program Administrator) is designed to provide East Baton Rouge citizens, as well as the Authority's customers and creditors (i.e. bondholders) with a general overview of the East Baton Rouge Mortgage Finance Authority's finances and to show the Authority's accountability for the money it receives from its bond issue proceeds and other sources, which includes income earned on mortgage loan receivables/mortgage backed securities and income earned on other investments and Authority fee income. If you have any questions about this report or need additional financial information, please contact:

Michael G. McMahon
President

Astrid Clements
Chairperson, Board of Trustees

Victoria M. Theriot
Executive Vice President

Jake Netterville
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**EAST BATON ROUGE
MORTGAGE FINANCE AUTHORITY**

INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND BALANCE SHEETS

AS OF DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2011)

(In Thousands)

	MRCMO Program	1993 A&B Program	1993 C Program	1997 D Program
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ -	\$ 21	\$ -	\$ 24
Guaranteed Investment Agreements	-	828	-	339
U.S. Government and Agency Securities	3,457	-	-	-
Mortgage-Backed Securities	-	1,567	-	2,547
Mortgage Loans Receivable - Net	-	-	-	-
Accrued Interest Receivable	-	23	-	16
Deferred Financing Costs	1	9	-	17
Downpayment and Authority Assistance Programs	-	-	-	-
Note Receivable	-	-	-	-
Inter-Program Receivable (Payable)	-	-	-	(2)
Prepaid Insurance and Other Assets	-	-	-	-
Capital Assets (Net of Accumulated Depreciation)	-	-	-	-
Total Assets	<u>\$ 3,458</u>	<u>\$ 2,448</u>	<u>\$ -</u>	<u>\$ 2,941</u>
<u>LIABILITIES AND NET POSITION</u>				
Liabilities:				
Accounts Payable and Accrued Liabilities	\$ -	\$ 3	\$ -	\$ 1
Accrued Interest Payable	-	18	-	26
Bonds and Lines of Credit Payable - Net	<u>2,998</u>	<u>1,355</u>	<u>-</u>	<u>1,810</u>
Total Liabilities	<u>2,998</u>	<u>1,376</u>	<u>-</u>	<u>1,837</u>
Net Position:				
Investment in Capital Assets, Net of Related Debt	-	-	-	-
Restricted	460	1,072	-	1,104
Unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Net Position	<u>460</u>	<u>1,072</u>	<u>-</u>	<u>1,104</u>
Total Liabilities and Net Position	<u>\$ 3,458</u>	<u>\$ 2,448</u>	<u>\$ -</u>	<u>\$ 2,941</u>

(CONTINUED)

<u>1998 B Program</u>	<u>1998 D Program</u>	<u>2002 A Program</u>	<u>2003 A Program</u>	<u>2004 A Program</u>
\$ 87	\$ 40	\$ 444	\$ 121	\$ 50
298	890	1,156	-	-
-	-	-	-	-
3,892	5,559	4,821	6,789	7,617
-	-	-	-	-
21	32	33	29	32
23	36	73	65	85
-	-	-	85	128
-	-	-	-	-
(2)	(1)	(2)	(6)	(4)
-	-	-	-	-
-	-	-	-	-
<u>\$ 4,319</u>	<u>\$ 6,556</u>	<u>\$ 6,525</u>	<u>\$ 7,083</u>	<u>\$ 7,908</u>

\$ 2	\$ 1	\$ 1	\$ 1	\$ 1
29	56	75	26	29
<u>2,180</u>	<u>4,280</u>	<u>5,775</u>	<u>6,242</u>	<u>7,072</u>
<u>2,211</u>	<u>4,337</u>	<u>5,851</u>	<u>6,269</u>	<u>7,102</u>
-	-	-	-	-
2,108	2,219	674	814	806
-	-	-	-	-
<u>2,108</u>	<u>2,219</u>	<u>674</u>	<u>814</u>	<u>806</u>
<u>\$ 4,319</u>	<u>\$ 6,556</u>	<u>\$ 6,525</u>	<u>\$ 7,083</u>	<u>\$ 7,908</u>

**EAST BATON ROUGE
MORTGAGE FINANCE AUTHORITY**

INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND BALANCE SHEETS (CONTINUED)

AS OF DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS AS OF DECEMBER 31, 2011)

(In Thousands)

	<u>2005 A</u> <u>Program</u>	<u>2006 A</u> <u>Program</u>	<u>2007 A</u> <u>Program</u>	<u>2007 B</u> <u>Program</u>
<u>ASSETS</u>				
Cash and Cash Equivalents	\$ 993	\$ 688	\$ 247	\$ 898
Guaranteed Investment Agreements	-	-	1,175	189
U.S. Government and Agency Securities	-	-	-	-
Mortgage-Backed Securities	11,969	8,902	18,306	3,774
Mortgage Loans Receivable - Net	-	-	-	-
Accrued Interest Receivable	45	36	89	18
Deferred Financing Costs	38	35	43	11
Downpayment and Authority Assistance Programs	356	380	792	246
Note Receivable	-	-	-	-
Inter-Program Receivable (Payable)	-	(6)	(16)	(5)
Prepaid Insurance and Other Assets	3	1	-	1
Capital Assets (Net of Accumulated Depreciation)	-	-	-	-
Total Assets	<u>\$ 13,404</u>	<u>\$ 10,036</u>	<u>\$ 20,636</u>	<u>\$ 5,132</u>

LIABILITIES AND NET POSITION

Liabilities:

Accounts Payable and Accrued Liabilities	\$ 2	\$ 2	\$ 2	\$ -
Accrued Interest Payable	136	106	210	49
Bonds and Lines of Credit Payable - Net	11,750	8,792	17,880	3,795
Total Liabilities	<u>11,888</u>	<u>8,900</u>	<u>18,092</u>	<u>3,844</u>

Net Position:

Investment in Capital Assets, Net of Related Debt	-	-	-	-
Restricted	1,516	1,136	2,544	1,288
Unrestricted	-	-	-	-
Total Net Position	<u>1,516</u>	<u>1,136</u>	<u>2,544</u>	<u>1,288</u>
Total Liabilities and Net Position	<u>\$ 13,404</u>	<u>\$ 10,036</u>	<u>\$ 20,636</u>	<u>\$ 5,132</u>

The notes to the financial statements are an integral part of this statement.

<u>2009 A Program</u>	<u>2009 GSE Program</u>	<u>Unrestricted Fund</u>	<u>2012 Combined</u>	<u>2011 Combined</u>
\$ 800	\$ 25,499	\$ 5,107	\$ 35,019	\$ 30,761
298	-	-	5,173	5,124
-	-	11,023	14,480	17,499
13,826	909	20,379	110,857	139,194
810	-	1,062	1,872	1,390
61	3	53	491	656
188	221	-	845	891
-	-	-	1,987	2,681
-	-	500	500	-
(10)	-	54	-	-
-	-	27	32	25
-	-	1,549	1,549	789
<u>\$ 15,973</u>	<u>\$ 26,632</u>	<u>\$ 39,754</u>	<u>\$ 172,805</u>	<u>\$ 199,010</u>

\$ 1	\$ -	\$ 92	\$ 109	\$ 137
172	145	-	1,077	1,266
14,190	25,000	9,380	122,499	145,216
<u>14,363</u>	<u>25,145</u>	<u>9,472</u>	<u>123,685</u>	<u>146,619</u>
-	-	1,549	1,549	789
1,610	1,487	-	18,838	22,609
-	-	28,733	28,733	28,993
<u>1,610</u>	<u>1,487</u>	<u>30,282</u>	<u>49,120</u>	<u>52,391</u>
<u>\$ 15,973</u>	<u>\$ 26,632</u>	<u>\$ 39,754</u>	<u>\$ 172,805</u>	<u>\$ 199,010</u>

**EAST BATON ROUGE
MORTGAGE FINANCE AUTHORITY**

INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

(In Thousands)

	<u>MRCMO Program</u>	<u>1993 A&B Program</u>	<u>1993 C Program</u>	<u>1997 D Program</u>
<u>REVENUES:</u>				
Income Earned on Mortgage Loans				
Receivable/ Mortgage Backed Securities	\$ -	\$ 79	\$ 11	\$ 149
Income Earned on Other Investments	-	43	5	20
Net Increase (Decrease) in the Fair Value of Investments	31	(26)	-	(66)
Other Income	-	-	-	-
Authority Fee Income	-	-	-	-
Total	<u>31</u>	<u>96</u>	<u>16</u>	<u>103</u>
<u>EXPENSES:</u>				
Interest	266	82	1	117
Amortization of Deferred Financing Costs	-	4	1	5
Amortization of DAP & MLAP	-	-	-	-
Authority Fees	-	3	1	9
Servicing Fees	-	-	-	-
Insurance Costs	-	-	-	-
Administrative Fees	-	4	-	10
Operating Expenses	-	6	-	8
Total	<u>266</u>	<u>99</u>	<u>3</u>	<u>149</u>
Net Income (Loss)	(235)	(3)	13	(46)
Transfers Among Programs	-	-	(1,189)	-
Net Position - Beginning of Year	695	1,075	1,176	1,150
Net Position - End of Year	<u>\$ 460</u>	<u>\$ 1,072</u>	<u>\$ -</u>	<u>\$ 1,104</u>

(CONTINUED)

<u>1998 B Program</u>	<u>1998 D Program</u>	<u>2002 A Program</u>	<u>2003 A Program</u>	<u>2004 A Program</u>
\$ 216 15	\$ 292 40	\$ 269 50	\$ 386 -	\$ 416 -
(130)	(138)	(155)	(315)	(230)
-	-	-	-	-
-	-	-	-	-
<u>101</u>	<u>194</u>	<u>164</u>	<u>71</u>	<u>186</u>
130	247	320	347	368
7	10	13	18	17
-	-	69	84	129
9	4	6	29	17
-	-	-	-	-
-	-	-	-	-
11	10	11	9	11
9	8	8	3	3
<u>166</u>	<u>279</u>	<u>427</u>	<u>490</u>	<u>545</u>
(65)	(85)	(263)	(419)	(359)
-	-	-	-	-
2,173	2,304	937	1,233	1,165
<u>\$ 2,108</u>	<u>\$ 2,219</u>	<u>\$ 674</u>	<u>\$ 814</u>	<u>\$ 806</u>

**EAST BATON ROUGE
MORTGAGE FINANCE AUTHORITY**

INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)

FOR THE YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

(In Thousands)

	<u>2005A</u> <u>Program</u>	<u>2006 A</u> <u>Program</u>	<u>2007 A</u> <u>Program</u>	<u>2007 B</u> <u>Program</u>
<u>REVENUES:</u>				
Income Earned on Mortgage Loans				
Receivable/ Mortgage Backed Securities	\$ 631	\$ 491	\$ 1,073	\$ 240
Income Earned on Other Investments	-	-	36	9
Net Increase (Decrease) in the Fair Value of Investments	(251)	(272)	(472)	(240)
Other Income	-	-	-	-
Authority Fee Income	-	-	-	-
Total	<u>380</u>	<u>219</u>	<u>637</u>	<u>9</u>
<u>EXPENSES:</u>				
Interest	605	434	821	238
Amortization of Deferred Financing Costs	13	10	11	11
Amortization of DAP & MLAP	119	95	158	41
Authority Fees	-	26	70	22
Servicing Fees	-	-	-	-
Insurance Costs	-	-	-	-
Administrative Fees	20	15	27	-
Operating Expenses	11	6	3	4
Total	<u>768</u>	<u>586</u>	<u>1,090</u>	<u>316</u>
Net Income (Loss)	(388)	(367)	(453)	(307)
Transfers Among Programs	-	-	-	-
Net Position - Beginning of Year	1,904	1,503	2,997	1,595
Net Position - End of Year	<u>\$ 1,516</u>	<u>\$ 1,136</u>	<u>\$ 2,544</u>	<u>\$ 1,288</u>

The notes to the financial statements are an integral part of this statement

<u>2009 A Program</u>	<u>2009 GSE Program</u>	<u>Unrestricted Fund</u>	<u>2012 Combined</u>	<u>2011 Combined</u>
\$ 787	\$ 14	\$ 940	\$ 5,994	\$ 6,648
16	2	604	840	1,036
(311)	49	1,407	(1,119)	3,386
-	-	23	23	-
-	-	234	234	277
<u>492</u>	<u>65</u>	<u>3,208</u>	<u>5,972</u>	<u>11,347</u>
734	488	23	5,221	5,804
6	-	-	126	362
154	-	108	957	807
38	-	-	234	277
-	-	-	-	1
-	-	25	25	5
18	-	502	648	619
6	14	1,943	2,032	3,773
<u>956</u>	<u>502</u>	<u>2,601</u>	<u>9,243</u>	<u>11,648</u>
(464)	(437)	607	(3,271)	(301)
-	1,296	(107)	-	-
2,074	628	29,782	52,391	52,692
<u>\$ 1,610</u>	<u>\$ 1,487</u>	<u>\$ 30,282</u>	<u>\$ 49,120</u>	<u>\$ 52,391</u>

**EAST BATON ROUGE
MORTGAGE FINANCE AUTHORITY**

**INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND
STATEMENTS OF CASH FLOWS**

FOR THE YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

(In Thousands)

	<u>MRCMO Program</u>	<u>1993 A&B Program</u>	<u>1993 C Program</u>
Cash Flows From Operating Activities:			
Cash Receipts for:			
Mortgage Loans and Mortgage-Backed Securities Income	\$ -	\$ 79	\$ 11
Collection of Mortgage Loans and Mortgage-Backed Securities	-	452	872
Income on Other Investments	-	43	5
Cash Payments for:			
Purchase of Mortgage Loans and Mortgage-Backed Securities	-	-	-
Interest Paid	-	(87)	(2)
Other Items	-	22	2
Net Cash Provided by (Used in) Operating Activities	<u>-</u>	<u>509</u>	<u>888</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition of Capital Assets	<u>-</u>	<u>-</u>	<u>-</u>
Net Cash Used in Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows From Investing Activities:			
Investment Purchases - Net	<u>-</u>	<u>(78)</u>	<u>401</u>
Net Cash Provided by (Used in) Investing Activities	<u>-</u>	<u>(78)</u>	<u>401</u>
Cash Flows From Noncapital Financing Activities:			
Bond Financing Costs	-	4	1
Proceeds from Bond Issues / Line of Credit	-	-	-
Retirement of Notes and Bonds Payable	-	(390)	(110)
Interfund Activities	<u>-</u>	<u>-</u>	<u>(1,189)</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>-</u>	<u>(386)</u>	<u>(1,298)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>-</u>	<u>45</u>	<u>(9)</u>
Cash and Cash Equivalents at Beginning of Year	<u>-</u>	<u>20</u>	<u>6</u>
Cash and Cash Equivalents at End of Year	<u>\$ -</u>	<u>\$ 65</u>	<u>\$ (3)</u>

(CONTINUED)

<u>1997 D</u> <u>Program</u>	<u>1998 B</u> <u>Program</u>	<u>1998 D</u> <u>Program</u>	<u>2002 A</u> <u>Program</u>	<u>2003 A</u> <u>Program</u>	<u>2004 A</u> <u>Program</u>
\$ 149	\$ 216	\$ 292	\$ 269	\$ 386	\$ 416
400	549	888	666	1,490	1,077
20	15	40	50	-	-
-	-	-	-	-	-
(122)	(139)	(258)	(330)	(353)	(373)
73	93	192	254	305	340
<u>520</u>	<u>734</u>	<u>1,154</u>	<u>909</u>	<u>1,828</u>	<u>1,460</u>
-	-	-	-	-	-
-	-	-	-	-	-
(58)	22	(134)	22	-	-
<u>(58)</u>	<u>22</u>	<u>(134)</u>	<u>22</u>	<u>-</u>	<u>-</u>
5	7	9	13	18	17
-	-	-	-	-	-
(360)	(640)	(865)	(700)	(1,513)	(1,205)
-	-	-	-	-	-
<u>(355)</u>	<u>(633)</u>	<u>(856)</u>	<u>(687)</u>	<u>(1,495)</u>	<u>(1,188)</u>
107	123	164	244	333	272
19	88	94	480	141	151
<u>\$ 126</u>	<u>\$ 211</u>	<u>\$ 258</u>	<u>\$ 724</u>	<u>\$ 474</u>	<u>\$ 423</u>

**EAST BATON ROUGE
MORTGAGE FINANCE AUTHORITY**

**INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND
STATEMENTS OF CASH FLOWS (CONTINUED)**

FOR THE YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

(In Thousands)

	<u>2005A</u> <u>Program</u>	<u>2006 A</u> <u>Program</u>	<u>2007 A</u> <u>Program</u>
Cash Flows From Operating Activities:			
Cash Receipts for:			
Mortgage Loans and Mortgage-Backed Securities Income	\$ 631	\$ 491	\$ 1,073
Collection of Mortgage Loans and Mortgage-Backed Securities	2,988	2,330	3,797
Income (Loss) on Other Investments	-	-	36
Cash Payments for:			
Purchase of Mortgage Loans and Mortgage-Backed Securities	-	-	-
Interest Paid	(645)	(459)	(863)
Other Items	627	423	743
Net Cash Provided by (Used in) Operating Activities	<u>3,601</u>	<u>2,785</u>	<u>4,786</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition of Capital Assets	-	-	-
Net Cash Used in Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash Flows From Investing Activities:			
Investment Purchases - Net	-	-	(467)
Net Cash Provided by (Used in) Investing Activities	<u>-</u>	<u>-</u>	<u>(467)</u>
Cash Flows From Noncapital Financing Activities:			
Bond Financing Costs - Net	12	10	11
Proceeds from Bond Issues / Line of Credit	-	-	-
Retirement of Notes and Bonds Payable	(3,490)	(2,055)	(3,502)
Interfund Activities	-	-	-
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>(3,478)</u>	<u>(2,045)</u>	<u>(3,491)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	123	740	828
Cash and Cash Equivalents at Beginning of Year	<u>1,515</u>	<u>407</u>	<u>246</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,638</u>	<u>\$ 1,147</u>	<u>\$ 1,074</u>

(CONTINUED)

<u>2007 B Program</u>	<u>2009 A Program</u>	<u>2009 GSE Program</u>	<u>Unrestricted Fund</u>	<u>2012 Combined</u>	<u>2011 Combined</u>
\$ 240	\$ 787	\$ 14	\$ 940	\$ 5,994	\$ 6,648
1,595	2,704	-	6,152	25,960	18,239
9	16	2	604	840	1,036
-	-	(860)	-	(860)	(17,111)
(256)	(746)	(488)	(23)	(5,144)	(6,102)
219	520	469	(3,409)	873	(4,608)
<u>1,807</u>	<u>3,281</u>	<u>(863)</u>	<u>4,264</u>	<u>27,663</u>	<u>(1,898)</u>
-	-	-	(770)	(770)	(789)
-	-	-	(770)	(770)	(789)
54	189	-	4,655	4,606	51,843
<u>54</u>	<u>189</u>	<u>-</u>	<u>4,655</u>	<u>4,606</u>	<u>51,843</u>
11	6	-	-	124	143
-	-	-	9,380	9,380	30,827
(1,450)	(2,312)	-	(13,849)	(32,441)	(56,512)
-	-	1,296	(107)	-	-
<u>(1,439)</u>	<u>(2,306)</u>	<u>1,296</u>	<u>(4,576)</u>	<u>(22,937)</u>	<u>(25,542)</u>
422	1,164	433	3,573	8,562	23,614
723	366	25,552	953	30,761	7,147
<u>\$ 1,145</u>	<u>\$ 1,530</u>	<u>\$ 25,985</u>	<u>\$ 4,526</u>	<u>\$ 39,323</u>	<u>\$ 30,761</u>

**EAST BATON ROUGE
MORTGAGE FINANCE AUTHORITY**

**INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND
STATEMENTS OF CASH FLOWS (CONTINUED)**

FOR THE YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)

(In Thousands)

	<u>MRCMO Program</u>	<u>1993 A&B Program</u>	<u>1993 C Program</u>
Reconciliation of Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Net Income (Loss)	\$ (235)	\$ (3)	\$ 13
Adjustments to Reconcile Net (Loss) Income to Net Cash Provided by (Used in) Operating Activities:			
Unrealized and Realized (Gains) Losses on Investments	(31)	26	-
Amortization of Deferred Financing Costs	-	4	1
Amortization of Downpayment and Authority Assistance Programs	-	-	-
Interest Expense	266	82	1
Income on Other Investments	-	(43)	(5)
Purchase of Mortgage Loans and Mortgage-Backed Securities	-	-	-
Collections of Loans and Mortgage-Backed Securities	-	452	872
Notes Receivable	-	-	-
Other - Net	-	(9)	6
Net Cash Provided by (Used in) Operating Activities	<u>\$ -</u>	<u>\$ 509</u>	<u>\$ 888</u>

(CONTINUED)

<u>1997 D Program</u>	<u>1998 B Program</u>	<u>1998 D Program</u>	<u>2002 A Program</u>	<u>2003 A Program</u>	<u>2004 A Program</u>
\$ (46)	\$ (65)	\$ (85)	\$ (263)	\$ (419)	\$ (359)
66	130	138	155	315	230
5	7	10	13	18	17
-	-	-	69	84	129
117	130	247	320	347	368
(20)	(15)	(40)	(50)	-	-
-	-	-	-	-	-
400	549	888	666	1,490	1,077
-	-	-	-	-	-
(2)	(2)	(4)	(1)	(7)	(2)
<u>\$ 520</u>	<u>\$ 734</u>	<u>\$ 1,154</u>	<u>\$ 909</u>	<u>\$ 1,828</u>	<u>\$ 1,460</u>

**EAST BATON ROUGE
MORTGAGE FINANCE AUTHORITY**

**INDIVIDUAL PROGRAMS AND UNRESTRICTED FUND
STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEAR ENDED DECEMBER 31, 2012
(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED DECEMBER 31, 2011)**

(In Thousands)

	<u>2005A</u> <u>Program</u>	<u>2006 A</u> <u>Program</u>	<u>2007 A</u> <u>Program</u>
Reconciliation of Net Income (Loss) to Net Cash Provided by (Used in) Operating Activities:			
Net Income (Loss)	\$ (388)	\$ (367)	\$ (453)
Adjustments to Reconcile Net (Loss) Income to Net Cash Provided by (Used in) Operating Activities:			
Unrealized and Realized (Gains) Losses on Investments	251	272	472
Amortization of Deferred Financing Costs	13	10	11
Amortization of Downpayment and Authority Assistance Programs	119	95	158
Interest Expense	605	434	821
Income on Other Investments	-	-	(36)
Purchase of Mortgage Loans and Mortgage-Backed Securities	-	-	-
Collections of Loans and Mortgage-Backed Securities	2,988	2,330	3,797
Notes Receivable	-	-	-
Other - Net	13	11	16
Net Cash Provided by (Used in) Operating Activities	<u>\$ 3,601</u>	<u>\$ 2,785</u>	<u>\$ 4,786</u>

The notes to the financial statements are an integral part of this statement

<u>2007 B Program</u>	<u>2009 A Program</u>	<u>2009 GSE Program</u>	<u>Unrestricted Fund</u>	<u>2012 Combined</u>	<u>2011 Combined</u>
\$ (307)	\$ (464)	\$ (437)	\$ 607	\$ (3,271)	\$ (301)
240	311	(49)	(1,407)	1,119	(3,386)
11	6	-	-	126	362
41	154	-	108	957	807
238	734	488	23	5,221	5,804
(9)	(16)	(2)	(604)	(840)	(1,036)
-	-	(860)	-	(860)	(17,111)
1,595	2,704	-	6,152	25,960	18,239
-	-	-	(500)	(500)	-
(2)	(148)	(3)	(115)	(249)	(210)
<u>\$ 1,807</u>	<u>\$ 3,281</u>	<u>\$ (863)</u>	<u>\$ 4,264</u>	<u>\$ 27,663</u>	<u>\$ 3,168</u>

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012

(1) Summary of Significant Accounting Policies -

(A) Organization of Authority

The East Baton Rouge Mortgage Finance Authority (the "Authority") was created through a Trust Indenture dated August 14, 1974, pursuant to provisions of the Louisiana Revised Statutes of 1950, as amended. The initial legislation and subsequent amendments grant the Authority the power to obtain funds and to use the proceeds to promote the financing and development of any essential program conducted in the public interest within the boundaries of East Baton Rouge Parish, Louisiana

The Authority's operations consist primarily of single family mortgage purchase bond programs under which the Authority promotes residential home ownership through the acquisition of mortgage loans secured by first mortgage liens on single family residential housing. Under the 1993 A&B, 1993C, 1997 D, 1998 B, 1998 D, 2002 A, 2003 A, 2004 A, 2005 A, 2006 A, 2007 A, 2007 B, and 2009 A Programs, these loans are pooled and sold to the Government National Mortgage Association (GNMA), the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) in exchange for mortgage-backed securities (MBS) on which GNMA, FNMA, or FHLMC guarantees payment of principal and interest when due. These securities are collateralized by the related loans. The Authority also issues short-term convertible program notes, which are securitized by government agency securities during the interim in preparation of long-term issues. The funds for the Authority's programs were obtained through the issuance of bonds in the following face value amounts (in thousands):

1987 Program, dated July 1, 1987	Closed	\$ 15,450
1988 C&D Program, dated August 1, 1988	Closed	26,975
1988 E&F Program, dated June 22, 1989	Closed	40,000
Municipal Refunding Collateralized Mortgage Obligations (MRCMO) Program, dated January 25, 1989		67,905
1990 Program, dated August 1, 1990	Closed	56,000
1992 A&B Program, dated April 1, 1992	Closed	25,000
1992 C Program, dated April 1, 1992	Closed	38,310
1992 D Program, dated April 1, 1992	Closed	8,975
1993 A&B Program, dated October 27, 1993		36,720
1993 C Program, dated October 27, 1993	Closed	15,270
1994 A&B Program, dated August 15, 1994	Closed	31,210
1994 C Program, dated December 29, 1994 (remarketed)	Closed	13,250
1995 A Program, dated February 23, 1995 (remarketed)	Closed	8,840
1995 B Program, dated October 5, 1995	Closed	12,500

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

1995 C Program, dated September 28, 1995 (remarketed)	Closed	5,820
1996 A Program, dated February 29, 1996 (remarketed)	Closed	9,765
1996 B program, dated October 24, 1996	Closed	12,500
1996 C Program, dated September 27, 1996 (remarketed)	Closed	6,390
1997 B Program, dated March 27, 1997 (remarketed)	Closed	10,755
1997 C1-C3 Program, dated December 31, 1997	Closed	101,400
1997 D Program, dated June 1, 1997		18,600
1997 F Program, dated September 25, 1997 (remarketed)	Closed	5,135
1998 A Program, dated June 1, 1998	Closed	12,920
1998 B Program, dated June 1, 1998		23,595
1998 C Program, dated December 1, 1998	Closed	41,180
1998 D Program, dated December 1, 1998		6,000
1999 A Program, dated July 15, 1999	Closed	12,000
1999 B Program, dated July 15, 1999	Closed	16,485
2000 A&B Program, dated May 31, 2000	Closed	57,208
2000 C Program, dated November 9, 2000 (remarketed from 2000 A&B Program)	Closed	10,000
2000 D Program, dated November 9, 2000 (remarketed from 2000 A&B Program)	Closed	6,294
2000 E Program, dated November 9, 2000	Closed	14,787
2000 CR Program, dated August 14, 2001 (remarketed from 2000 C Program)	Closed	5,200
2000 DR Program, dated August 14, 2001 (remarketed from 2000 D Program)	Closed	3,330
2000 ER Program, dated August 14, 2001 (remarketed from 2000 E Program)	Closed	7,710
2002 A Program, dated June 18, 2002		30,925
2003 A Program, dated September 16, 2003		21,940
2004 A Program, dated October 5, 2004		24,451
2005 A Program, dated December 20, 2005		30,000
2006 A Program dated July 25, 2006		20,000
2007 A Program, dated February 23, 2007		40,000
2007 B Program, dated December 28, 2007		20,000
2009 A Program, dated October 22, 2009		29,360
2009 GSE Program dated November 22, 2011		25,000

The bonds issued by the Authority are general obligations of the Authority and are not obligations of the State of Louisiana or any other political subdivision thereof.

The Authority's Board of Trustees is empowered under the bond trust indentures and the bond program agreements to contract with outside parties to conduct the day-to-day operations of the Authority and the programs it initiates. The Authority employs Financial Consulting Services, Inc. as its Program Administrator to provide administrative staff support for the

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

Board of Trustees and its committees, general office administration for the Authority and program administration and supervision for each of its mortgage purchase bond programs. Under each of its single family mortgage purchase bond programs, the Authority utilizes area financial institutions to originate and service the mortgage loans acquired. In addition, a bank has been designated as the Trustee of the separate bond programs and has the fiduciary responsibility for the custody and investment of funds.

The Program Administrator is responsible for the development of each new bond issue and loan program. Once the bond issue is closed, the Program Administrator supervises the origination of the mortgage loans, underwrites (reviews and approves) the new mortgage loans for purchase under each program, maintains computerized current records on all loans, and supervises the servicing and trustee functions for each program.

- (B) **Basis of Presentation - Fund Accounting** - The proprietary funds are used to account for the Authority's ongoing operations and activities which are similar to those in the private sector. Proprietary funds are accounted for using a flow of economic resource measurement focus under which all assets and all liabilities associated with the operation of these funds are included in the balance sheet. The operating statements present increases (revenues) and decreases (expenses) in total net position. The Authority follows the guidance included in GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance*, contained in pre-November 1989 FASB and AICPA pronouncements.

Basis of Accounting - The Authority prepares financial statements in accordance with accounting principles generally accepted in the United States of America. Such principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Basis of Reporting - Effective January 1, 2003, the Authority adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and also adopted the required portions of GASB Statements No. 37 and 38, which modified the disclosure requirements of GASB No. 34. GASB No. 34 establishes standards for external financial reporting for all state and local governmental entities. It requires the classification of net position in three components – invested in capital assets, net of related debt, restricted; and unrestricted. These classifications are defined as follows:

- *Invested in Capital Assets, Net of Related Debt* – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

- *Restricted* – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This component of net position consists of net position that do not meet the definition of “restricted” or “invested in capital assets, net of related debt ”

The net position of the Unrestricted Fund are invested in capital assets, net of related debt, or unrestricted. The net position of all other programs are substantially restricted under the terms of the various bond indentures

Combined Totals - The combined financial statements include the totals of the similar accounts of each of the Authority’s bond programs and the Authority’s Unrestricted Fund. Because the assets of the bond programs are restricted by the related bond resolutions and indentures, the totaling of the accounts, including the assets therein, is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the resolutions and indentures relating to the separate programs.

GASB Statement No. 31 - The GASB issued Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASB Statement No 31 became effective for the Authority for periods beginning after June 15, 1997 and was adopted by the Authority effective January 1, 1998. The statement requires that most investments be recorded at fair value. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties and has generally been based upon quoted values. This method of accounting causes fluctuations in reported investment values based on fluctuations in the investment market.

Fluctuations in the fair value of investments are recorded as income or expense in the statements of revenues, expenses, and changes in net position, and the amount is disclosed in the statements of cash flows as unrealized gain (loss) on investments. The Authority applies the provisions of the Statement to U.S. Government securities and mortgage-backed securities. The sale of these investments by the Authority is generally subject to certain restrictions as described in the individual bond indentures.

Amortization - Bond issuance costs, including underwriters' discount on bonds sold, are being amortized ratably over the lives of the bonds based upon the principal amounts outstanding. The remaining unamortized balances of these costs are reflected on the accompanying balance sheets as "Deferred Financing Costs "

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

Commitment Fees and Loan Origination Costs - Nonrefundable commitment fees received subsequent to January 1, 1988 from originating financial institutions and certain direct loan origination costs are deferred and amortized over the lives of the related assets as a yield adjustment. Prior to 1988, such fees were recognized in current operations as received.

Reclassification of Prior Year Amounts - Certain prior year balances have been reclassified to conform to the current year presentation

Statement of Cash Flows - For purposes of the statement of cash flows, the Authority considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents

Summary Financial Information for 2011 - The financial statements include certain prior year summarized information in total. Such information does not include sufficient details to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's financial statements for the year ended December 31, 2011, from which the summarized information was derived.

(2) Cash and Investments -

In compliance with State laws, those deposits not covered by depository insurance are secured by bank owned securities specifically pledged to the Authority and held in joint custody by an independent custodian bank. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As a result of the pledging of additional securities by custodial banks in the Authority's name, the Authority does not have any custodial credit risk at December 31, 2012.

The Authority recognizes all purchases of investments with a maturity of three months or less, except for short term repurchases agreements, as cash equivalents.

Credit Risk - Statutes authorize the Authority to invest in the following types of investment securities,

- (1) Fully-collateralized certificates of deposit issued by qualified commercial banks, federal credit unions and savings and loan associations located within the State of Louisiana
- (2) Direct obligations of the U.S. Government, including such instruments as treasury bills, treasury notes and treasury bonds and obligations of U.S. Government agencies that are deliverable on the Federal Reserve Systems

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

- (3) Repurchase agreements in government securities in (2) above made with the 36 primary dealers that report to and are regulated by the Federal Reserve Bank of New York
- (4) Guaranteed Investment Contracts with companies with good credit ratings

The Authority has no investment policy that would further limit its investment choices beyond the restrictions imposed by the State. At December 31, 2012, the Authority's investments in MBS with GNMA, FNMA, and FHLMC are rated AAA by taking the average of the Moody's Investors Services, Standard and Poor, and Fitch ratings. The Authority has no limit on the amount it may invest in any one issuer so long as the State's restrictions are followed.

The Authority has a portion of its assets as of December 31, 2012, invested in GNMA, FNMA, and FHLMC obligations including MBS totaling approximately \$110.857 million. GNMA is an instrumentality of the Federal government. Its obligations carry the full faith and credit of the United States of America. Neither FNMA nor FHLMC are instrumentalities of the federal government and as such do not carry the full faith and credit of the United States of America. FNMA is a federally chartered and stockholder-owned corporation. FNMA was originally established in 1938 as a United States government agency and was transformed into a stockholder-owned and privately managed corporation in 1968. FHLMC is a stockholder-owned government sponsored corporation created in 1970. The Authority's total investment in FNMA and FHLMC obligations (including MBS) as of December 31, 2012, was approximately \$36.511 million. Any potential downgrade in the credit rating of either FNMA and/or FHLMC could have an adverse impact on the market value of the obligations of FNMA and/or FHLMC (including MBS) owned by the Authority. In connection with the approximately \$36.511 million of FNMA and FHLMC MBS, which the Authority has pledged to bondholders pursuant to separate trust indentures authorizing various bond issues, the asset portion of these various balance sheets could be adversely affected while the liabilities are not since the liabilities are not marked to market. However, any financial risk to the Authority is entirely mitigated since the bond indentures authorizing the Authority's bonds do not provide any acceleration of the Authority's bonded debt as a result of potential downgrade of either FNMA and/or FHLMC credit rating.

For the year ended December 31, 2012, the Authority recognized \$1.846 million in realized gains and \$2.965 million in unrealized losses in the Net Increase (Decrease) in the Fair Value of Investments.

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Authority's Interest Rate Risk Program generally restricts Investments to those whose terms are no longer than the terms of the related bonds.

Authority's programs have investments in guaranteed investment contracts, mortgage backed securities and other investments which have maturities which approximate the terms of the related debt. Therefore the Authority balances its interest rate risk against the related debt. By using this method, the Authority believes that it will mitigate its interest rate risk.

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

The Authority's unrestricted fund has investments in U.S. Government and agency securities with a weighted average maturity of 5 years and in MBS with a weighted average maturity of approximately 15 years.

Custodial Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At December 31, 2012, the Authority is not exposed to custodial credit risk with respect to its investments because all investments are either insured by federal depository insurance, registered in the name of the Authority, or collateralized by other investments pledged in the name of the Authority

(3) Mortgage Loans Receivable and Mortgage-Backed Securities -

Mortgage Loans Receivable - Mortgage notes acquired by the Authority from participating mortgage lenders and held by the following bond programs have original scheduled maturities of thirty years and are secured by first mortgages on the related real property. The mortgages have stated interest rates as follows:

2009 A Program	6.00%
Unrestricted Fund	8 40% - 10.95%

In addition to the customary insurance required of the mortgagors, the mortgage loans are insured under special hazard policies, and supplemental mortgage trust policies for mortgagor defaults. Premiums for these policies are paid through the applicable Program's funds.

All of the single family mortgage loans are originated by participating mortgage lenders through conventional, FHA or VA programs sponsored by the mortgage lenders and are sold to the Authority without recourse. The participating mortgage lenders service the mortgage loans for the Authority and receive monthly compensation based upon the unpaid principal balance of the mortgage loans serviced.

Mortgage-Backed Securities - As discussed in Note 1, the mortgage loans originated under certain Authority programs are pooled and sold to GNMA, FNMA, or FHLMC in exchange for mortgage-backed securities on which (GNMA, FNMA, or FHLMC guarantees payment of principal and interest when due). These securities bear the following terms and interest rates:

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

	<u>Term</u>	<u>Pass Through Interest Rate</u>
1993 A & B Program	30 years	4.75% - 6.50%
1997 D Program	30 years	5.875% - 6.625%
1998 B Program	30 years	5.125% - 8.35%
1998 D Program	30 years	4.25% - 6.125%
2002 A Program (1992 A & B)	30 years	7.00%
2003 A Program	33 years	4.76% - 5.25%
2004 A Program	32 years	4.90% - 5.20%
2005 A Program	30 years	4.875%
2006 A Program	30 years	5.375%
2007 A Program	32 years	3.60% - 5.40%
2007 B Program	32 years	3.30% - 5.45%
2009 A Program	30 years	4.875% - 7.10%
2009 GSE Program	30 years	2.32%
Unrestricted Fund	30 years	5.625% - 7.755%

The change to the mortgage-backed securities type of program was prompted by various factors including the unavailability of mortgage pool and related insurance coverage required for conventional mortgage loan programs. The guarantees by GNMA, FNMA, and/or FHLMC, which the Authority receives under this type of program, replaces the pool and related insurance coverage of the previous programs. Development of the new programs, origination of the mortgage loans and supervision of the servicing of the mortgage loans for compliance with federal mortgage bond tax laws by the Authority remain essentially the same.

As discussed in Note 1, nonrefundable commitment fees received from originating financial institutions and certain direct loan origination costs are amortized over the lives of the mortgage-backed securities owned by the 1993 A&B, 1997 D, 1998 B, 1998 D, 2002 A, 2003 A, 2004 A, 2005 A, 2006 A, 2007 A, 2007 B and 2009A Programs as a yield adjustment.

The net unamortized balances of the deferred net fees for such programs have been deducted from the balances of mortgage-backed securities in the accompanying balance sheets. The following is a summary of the balances of deferred net fees at December 31, 2012 and 2011 (in thousands):

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

	<u>Unamortized Deferred Net Fees</u>	
	<u>2012</u>	<u>2011</u>
1997 D Program	\$ 2	\$ 3
1998 B Program	2	4
1998 D Program	5	8
2002 A Program	3	4
2003 A Program	37	57
2004 A Program	71	123
2005 A Program	80	135
2006 A Program	9	15
2007 A Program	189	240
2007 B Program	48	62
2009 A Program	47	90
Total	<u>\$ 493</u>	<u>\$ 741</u>

(4) Changes in Capital Assets

Capital asset activity for the year ended December 31, 2012 (in thousands):

<u>Governmental Activities</u>	<u>Balance 12/31/2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2012</u>
Capital Assets not being Depreciated:				
Land	\$ 631	\$ -	\$ -	\$ 631
Total	631	-	-	631
Capital Assets being Depreciated:				
Furniture & Fixtures	-	134	-	134
Building & Improvements	158	636	-	794
Total	158	770	-	928
Less Accumulated Depreciation for:				
Furniture & Fixtures	-	8	-	8
Building & Improvements	-	2	-	2
Total Accumulated Depreciation:	-	10	-	10
Total Capital Assets being Depreciated, Net	158	760	-	918
Capital Assets, Net	<u>\$ 789</u>	<u>\$ 760</u>	<u>\$ -</u>	<u>\$ 1,549</u>

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

Depreciation is being calculated using the straight-line method over the estimated useful life of capital assets. Depreciation expense was \$9,714 for the year ended December 31, 2012. Depreciation expense was not charged for the year ended December 31, 2011 as the building was not placed in service as of December 31, 2011

(5) Note Receivable -

In accordance with a Cooperative Endeavor Agreement entered into by and between the Authority and a component unit of the City of Baton Rouge – East Baton Rouge Parish dated as of and effective September 1, 2011, and with the passage of a dedicated tax to support the component unit, the \$500 thousand grant awarded in the Cooperative Endeavor Agreement was converted into a loan in 2012.

The specific terms of the loan as generally described in the Cooperative Endeavor Agreement includes five (5) annual payments of \$100 thousand plus accrued interest beginning January 31, 2013. The interest rate is adjustable at WSJ Prime Rate (Current Rate is 3.25%) as of each January 31st for the years set forth in the Schedule of Payments

Schedule of Payments (in thousands):

<u>Payment Date</u>	<u>Amount</u>
1/31/2013	\$ 100
1/31/2014	100
1/31/2015	100
1/31/2016	100
1/31/2017	<u>100</u>
	<u>\$ 500</u>

(6) Bonds and Lines of Credit Payable -

The net proceeds obtained from the bond issues are used to establish funds authorized by the Bond Trust Indentures to purchase eligible mortgage loans, secured by first mortgage liens on single family owner-occupied residences, or to purchase GNMA, FNMA, and/or FHLMC mortgage-backed securities from qualified mortgage lenders accepted for participation in the programs by the Authority

The Bond Trust Indentures provide that bond principal and interest are secured by pledges of all mortgage loans and mortgage-backed securities acquired, all revenues and collections with respect to such loans and securities and all funds established by the Indenture, together with all of the proceeds generated therefrom

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

Outstanding bonds and lines of credit payable consist of the following at December 31, 2012 and 2011 (in thousands):

	<u>2012</u>
MRCMO Program	
Zero coupon bonds due 2014, priced to yield 9.33% maturity	\$ 3,500
Less unamortized bond discount	<u>(502)</u>
Total - MRCMP Program	2,998
 1993 A&B Program due serially and term from 2021 through 2025, and bearing interest at 5.0% to 5.50% payable semiannually	 1,355
 1997 D Program due serially and term from 2016 through 2030 bearing interest at 5.65% to 5.90% payable semiannually	 1,810
 1998 B Program due serially and term from 2016 through 2030, bearing interest at 5.20% to 5.35% payable semiannually	 2,180
 1998 D Program due serially and term from 2018 through 2033, bearing interest at 5.13% to 5.25% payable semiannually	 4,280
 2002 A Program. Serial and term bonds due from 2020 through 2033, bearing interest at 4.70% to 5.60% payable semiannually	 5,775
 2003 A Program due serially and term of 2036, bearing interest at 4.70% to 5.25% payable semiannually	 6,242
 2004 A Program due serially and term of 2036, bearing interest at 4.90% to 5.20% payable semiannually Plus unamortized bond premium	 7,002 <u>70</u>
Total - 2004A Program	7,072
 2005 A Program, due serially and term from 2013 through 2038, bearing interest at 4.05% to 4.80% payable semiannually	 11,750

(CONTINUED)

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

	<u>2012</u>
2006 A Program, due serially and term of 2038, bearing interest at 4 90%payable semiannually	8,650
Plus unamortized bond premium	<u>142</u>
Total - 2006A Program	8,792
2007 A Program, due serially and term from 2013 through 2038, bearing interest at 3 90% to 5.40% payable semiannually	17,655
Plus unamortized bond premium	<u>225</u>
Total - 2007A Program	17,880
2007 B Program, due serially and term from 2013 through 2039, bearing interest at 3 60% to 5.45% payable semiannually	3,795
2009 A Program, due serially and term from 2013 through 2040, bearing interest at 2.20% to 5.25% payable semiannually	13,975
Plus unamortized bond premium	<u>215</u>
Total - 2009A Program	14,190
2009 GSE Program, due 2041 bearing interest at 2.32% payable monthly	25,000
*Unrestricted Fund Line of Credit, due April 2013 bearing interest at 0 13% to 0 21% payable monthly	<u>9,380</u>
Total Bonds and Lines of Credit Payable-Net at December 31, 2012	<u><u>\$ 122,499</u></u>

*The Line of Credit has no stated maximum draw as long as the Authority is depositing collateral as they are requesting a draw.

(CONTINUED)

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

	<u>2011</u>
MRCMO Program	
Zero coupon bonds due 2014, priced to yield 9.33% maturity	\$ 3,500
Less unamortized bond discount	<u>(768)</u>
Total - MRCMO Program	2,732
1993 A&B Program due serially and term from 2021 through 2025, and bearing interest at 5.00% to 5.50% payable semiannually	1,745
1993 C Program, due serially and term of 2016, bearing interest at 4.63% payable semiannually	110
1997 D Program, due serially and term from 2016 through 2030, bearing interest at 5.65% to 5.90% payable semiannually	2,170
1998 B Program, due serially and term from 2016 through 2030, bearing interest at 5.20% to 5.35% payable semiannually	2,820
1998 D Program, due serially and term from 2018 through 2033, bearing interest at 5.13% to 5.25% payable semiannually	5,145
2002 A Program	
Serial and term bonds due from 2012 through 2033, bearing interest at 3.95% to 5.60% payable semiannually	6,475
2003 A Program, due serially and term of 2036, bearing interest at 4.70% to 5.25% payable semiannually	7,755
2004 A Program, due serially and term of 2036, bearing interest at 4.90% to 5.20% payable semiannually	8,192
Plus unamortized bond premium	<u>85</u>
Total - 2004A Program	8,277
2005 A Program, due serially and term from 2012 through 2038, bearing interest at 3.95% to 4.80% payable semiannually	15,240

(CONTINUED)

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

	<u>2011</u>
2006 A Program, due serially and term of 2038, bearing interest at 4.90% payable semiannually	10,665
Plus unamortized bond premium	<u>182</u>
Total - 2006A Program	10,847
2007 A Program, due serially and term 2012 through 2038, bearing interest at 3.80% to 5.40% payable semiannually	21,043
Plus unamortized bond premium	<u>339</u>
Total - 2007A Program	21,382
2007 B Program, due serially and term from 2012 through 2039, bearing interest at 3.50% to 5.45% payable semiannually	5,245
2009 A Program, due serially and term from 2012 through 2040, bearing interest at 1.70% to 5.25% payable semiannually	16,265
Plus unamortized bond premium	<u>237</u>
Total - 2009A Program	16,502
2009 GSE Program, due 2041, bearing interest at 2.32% payable monthly	25,000
Less Unamortized Bond Discount	<u>(78)</u>
Total - 2009 GSE Program	24,922
Unrestricted Fund Line of Credit, due April 2012 bearing interest at 0.16% to 0.56% payable monthly	<u>13,849</u>
Total Bonds and Lines of Credit Payable-Net at December 31, 2011	<u><u>\$ 145,216</u></u>

The bonds are subject to early redemption provisions as described in the Bond Trust Indentures at redemption prices equal to the principal amounts of the bonds redeemed plus accrued interest to the applicable call dates. In connection with early bond redemptions, deferred financing costs related to the bonds called are charged to expense.

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

A summary of changes in debt during the years ended December 31, 2012 and 2011 (in thousands), is as follows:

	<u>2012</u>	<u>2011</u>
Balance-January 1	\$ 145,216	\$ 171,065
Proceeds from New Issuances	9,380	30,827
Repayments and Other	<u>(32,097)</u>	<u>(56,676)</u>
Balance-December 31	<u>\$ 122,499</u>	<u>\$ 145,216</u>

Following is a schedule of the future principal and interest payments of the Authority's debt based on the stated maturity dates of the debt. Actual repayment dates will likely occur earlier since substantially all of the debt is subject to early redemption provisions. These early redemption provisions relate to payments received on the mortgage-backed securities and mortgage loans receivable and certain other factors. These early redemptions will also reduce future interest payments.

Scheduled principal payments for the years subsequent to December 31, 2012, are as follows (in thousands):

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Thereafter</u>	<u>Total</u>
MRCMO Program	\$ -	\$ 3,500	\$ -	\$ -	\$ -	\$ -	\$ 3,500
1993 A&B Program	-	-	-	-	-	1,355	1,355
1997 D Program	-	-	-	265	-	1,545	1,810
1998 B Program	-	-	-	310	-	1,870	2,180
1998 D Program	-	-	-	-	-	4,280	4,280
2002 A Program	-	-	-	-	-	5,775	5,775
2003 A Program	-	-	-	-	-	6,242	6,242
2004 A Program	-	-	-	-	-	7,002	7,002
2005 A Program	180	185	180	-	-	11,205	11,750
2006 A Program	-	-	-	-	-	8,650	8,650
2007 A Program	345	230	235	240	260	16,345	17,655
2007 B Program	60	65	65	65	65	3,475	3,795
2009 A Program	245	250	250	155	75	13,000	13,975
2009 GSE Program	-	-	-	-	-	25,000	25,000
Unrestricted Fund Line of Credit	9,380	-	-	-	-	-	9,380
	<u>\$ 10,210</u>	<u>\$ 4,230</u>	<u>\$ 730</u>	<u>\$ 1,035</u>	<u>\$ 400</u>	<u>\$ 105,744</u>	<u>\$ 122,349</u>

(CONTINUED)

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Thereafter</u>	<u>Total</u>
Less Unamortized Bond Discount							(502)
Plus Unamortized Premium							<u>652</u>
Total Outstanding- December 31, 2012							<u><u>\$ 122,499</u></u>

Scheduled interest payments for the years subsequent to December 31, 2012, are as follows: (in thousands)

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Thereafter</u>	<u>Total</u>
MRCMO Program	\$ 292	\$ 210	\$ -	\$ -	\$ -	\$ -	\$ 502
1993 A&B Program	72	72	72	72	72	478	838
1997 D Program	105	105	105	105	90	863	1,373
1998 B Program	116	116	116	116	100	1,276	1,840
1998 D Program	224	224	224	224	224	2,801	3,921
2002 A Program	300	300	300	300	300	3,384	4,884
2003 A Program	310	310	310	310	310	5,689	7,239
2004 A Program	350	350	350	350	350	6,426	8,176
2005 A Program	545	538	530	522	522	8,805	11,462
2006 A Program	424	424	424	424	424	8,801	10,921
2007 A Program	838	825	816	806	797	13,270	17,352
2007 B Program	196	193	191	189	186	3,100	4,055
2009 A Program	689	683	677	669	664	10,091	13,473
2009 GSE Program	580	580	580	580	580	14,365	17,265
Unrestricted Fund Line of Credit	4	-	-	-	-	-	4
	<u>\$ 5,045</u>	<u>\$ 4,930</u>	<u>\$ 4,695</u>	<u>\$ 4,667</u>	<u>\$ 4,619</u>	<u>\$ 79,349</u>	<u>\$ 103,305</u>

(7) Operating Expenses -

The members of the Authority's Board of Trustees receive a per diem fee for all committee and board meetings attended. For the years ended December 31, 2012 and 2011, payments to the Authority's Board members were as follows:

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

<u>Board Member</u>	<u>2012</u>	<u>2011</u>
Cheri Ausberry	\$ 5,200	\$ 7,000
Dennis Blunt	3,800	4,200
Norman Chenevert	7,000	8,600
Astrid Clements	7,400	10,400
Helena Cunningham	3,200	7,000
Robert Gaston, III	5,200	7,200
Matt McKay	5,200	4,400
Jake Netterville	3,400	6,800
Valerie Shexnayder	5,200	6,000
Total	<u>\$ 45,600</u>	<u>\$ 61,600</u>

These amounts are paid through the Unrestricted Fund and included in operating expenses in the accompanying statements of revenues, expenses, and changes in net position.

(8) Authority Fees -

Beginning with the 1992 Programs, the Authority instituted an authority fee which is paid to the Unrestricted Fund by the individual programs. The Unrestricted Fund recognizes authority fee income related to the fees paid by the individual programs. The fee income received by the Unrestricted Fund is currently being used to provide the upfront funds required of the Authority's annual programs in order to finance such things as costs of issuance of bonds, subsidizing lower income mortgagor's with waivers of discount points and providing down payment assistance to mortgagors. The actual fees paid by each program vary in accordance with the provisions of the respective program's indenture agreement. Authority fee income recognized by the Unrestricted Fund and Authority fee expense recognized by the individual programs are disclosed separately in the accompanying statements of revenues, expenses, and changes in net position.

(9) Downpayment Assistance and Authority Assistance Programs -

During fiscal year 1996, the Authority began the Downpayment Assistance Program (DAP) which provides funds to borrowers that meet certain criteria in order to assist borrowers with closing costs or down payments. The amount of funds is based on a percentage of the loan amount (generally 3% to 4%). The interest rate charged on these loans is greater than the interest rate on loans that do not utilize this program. Also during 1996, the Authority initiated the Authority Assistance Program (AAP) which waives the discount points on loans made to households whose income is under \$27,500.

Costs related to these programs are capitalized and are being amortized over the lives of the related assets as yield adjustments based upon the average lives of the underlying assets. The remaining unamortized balances are classified on the accompanying balance sheets in the same caption as the related assets. A summary of the activity with respect to these programs during the years ended December 31, 2012 and 2011, is as follows (in thousands):

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

	<u>December 31, 2011</u>	<u>Paid in 2012</u>	<u>2012 Amortization</u>	<u>December 31, 2012</u>
2002 A Program	\$ 69	\$ -	\$ (69)	\$ -
2003 A Program	169	-	(84)	85
2004 A Program	257	-	(129)	128
2005 A Program	475	-	(119)	356
2006 A Program	475	-	(95)	380
2007 A Program	950	-	(158)	792
2007 B Program	286	-	(40)	246
	<u>\$ 2,681</u>	<u>\$ -</u>	<u>\$ (694)</u>	<u>\$ 1,987</u>

	<u>December 31, 2010</u>	<u>Paid in 2011</u>	<u>2011 Amortization</u>	<u>December 31, 2011</u>
2002 A Program	\$ 138	\$ -	\$ (69)	\$ 69
2003 A Program	254	-	(85)	169
2004 A Program	386	-	(129)	257
2005 A Program	594	-	(119)	475
2006 A Program	570	-	(95)	475
2007 A Program	1,108	-	(158)	950
2007 B Program	327	-	(41)	286
	<u>\$ 3,377</u>	<u>\$ -</u>	<u>\$ (696)</u>	<u>\$ 2,681</u>

(10) Commitments

The East Baton Rouge Mortgage Finance Authority promotes economic development in the parish through its community grants program for non-profit organizations. The program provides grant funds and capital funds to be used for projects by non-profit organizations that advance the Authority's mission in increasing home ownership. Grants are awarded to organizations and agencies within East Baton Rouge Parish for use in East Baton Rouge Parish. Below is a schedule of commitments (in thousands).

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

DECEMBER 31, 2012

	Commitments As of 12/31/11	Additions	Payments	Remaining Commitment As of 12/31/12
East Baton Rouge Redevelopment Authority	\$ 3,550	\$ -	\$ 1,492	\$ 2,058
Baton Rouge Area Chamber	1,800	-	450	1,350
Gulf Coast Housing Partnership	200	-	100	100
Downtown Development District	-	250	-	250
Mid City Redevelopment (Line of Credit)	-	100	-	100
Total	<u>\$ 5,550</u>	<u>\$ 350</u>	<u>\$ 2,042</u>	<u>\$ 3,858</u>

(11) Transfers Among Programs

Transfers among programs generally consist of nonrecurring transfers associated with (1) the initial issuance of bonds, (2) transfers to the unrestricted fund of remaining fund assets of closed funds once bonds are redeemed, and (3) balances in the cost of issuance accounts

(12) Current Accounting Pronouncements

The Governmental Accounting Standards Board issued GASB Statement No. 65 "*Items Previously Reported as Assets and Liabilities*." This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term deferred in financial statement presentations. This Statement will be required to be adopted by the Authority for fiscal year ending December 31, 2013.

Management is currently evaluating the effects of the new GASB pronouncements scheduled for implementation for fiscal year ending December 31, 2013. Management currently believes the implementation of GASB 65 will not have a material effect on the Authority's financial statements

SUPPLEMENTARY INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON
INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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June 18, 2013

INDEPENDENT AUDITOR'S REPORT

To the Board and Trustees of
East Baton Rouge Mortgage Finance Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activity of the East Baton Rouge Mortgage Finance Authority (the Authority) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated June 18, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Authority's internal control

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose; however, under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Hannis J. Bourgeois, CPA

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY

SCHEDULE OF FINDINGS AND RESPONSES

DECEMBER 31, 2012

A. Internal Control Over Financial Reporting

None

B Compliance and Others Matters

None

EAST BATON ROUGE MORTGAGE FINANCE AUTHORITY
SCHEDULE OF PRIOR YEAR FINDINGS

DECEMBER 31, 2012

A. Internal Control Over Financial Reporting

None

B Compliance and Others Matters

None